MULTIMEDIA UNIVERSITY

STUDENT ID NO

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FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BMB3024 – MONEY AND BANKING

(All sections / Groups)

25 OCTOBER 2018

2.30 pm – 4.30 pm

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** printed pages, excluding the cover page.
2. This question paper consists of **TWO (2)** sections, **SECTION A** and **SECTION B**. Both sections consist of **TWO (2)** questions each.
3. Marks are shown for each question.
4. Write all your answers in the answer booklet provided.
5. Answer **ALL** questions.

Answer ALL questions.

Section A: Case-study (60 marks)

Question One (30 marks)

Read the passage below and answer the following questions.

Virtual banking is set to shake up Hong Kong

CNBC By Kelly Olsen
19 July 2018

Hong Kong, long a global leader in banking and finance, is bracing for the arrival of so-called virtual banks — financial institutions without physical branches where all transactions are online. Authorities are keen to raise Hong Kong's game in financial technology, or "fintech," part of broader ambitions to turn the semi-autonomous Chinese territory into a "smart city" amid intensifying regional and global digital competition.

Financial regulator Hong Kong Monetary Authority (HKMA) released revised guidelines for virtual banks at the end of May after consultations with stakeholders including the Hong Kong Association of Banks. The HKMA said more than 50 companies have expressed interest in the licenses. Firms face an end of August deadline for the first batch, which could be issued as early as this year.

Locally based payments platform Yedpay and international bank Standard Chartered said they plan to apply for licenses, while online lending operator WeLab is reportedly among those hoping to obtain one. "The development of virtual banks will promote the application of financial technology and innovation in Hong Kong and offer a new kind of customer experience," the HKMA said.

The arrival of new entrants into Hong Kong's highly developed banking ecosystem is being welcomed as a long-term positive that has already got the attention of financial giants, which, aside from Standard Chartered, also include names such as HSBC and Bank of China (Hong Kong). "They understand that these new entrants, the technology companies, they pose a threat to traditional banks," Sonny Hsu, vice president and senior credit officer in the Financial Institutions Group at Moody's Investors Service, told CNBC.

"They have to adapt their offering, they have to offer better services to customers, more convenience, faster payment capabilities," Hsu said. "So it's not like the incumbents are just sitting still and are being complacent."

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Raising the bar

Indeed, established banks in Hong Kong are increasingly offering online banking services, part of a global trend as consumers embrace advantages such as convenience, transparency and lower transaction fees.

Standard Chartered suggested that its name recognition would be a plus.

"People do not want another account with a different brand, they want their financial lives simplified," Samir Subberwal, regional head of retail banking for Greater China and North Asia at Standard Chartered, said in a release announcing the company's intention to apply for a virtual bank license.

Virtual banks will be required to have a physical office in Hong Kong for dealing with the HKMA and customer questions or complaints, but they will not need to spend heavily on building and staffing branch networks. The advantage basically ends there, however, as virtual banks will largely face the same rules as traditional ones, including stringent capital requirements, leaving them little recourse but to either offer more attractive terms or much better digital experiences to attract consumers.

"They'll be subject to the same regulations so they have to compete on an equal basis as the banks," said Hsu, stressing that the HKMA wants to increase competition while being careful to avoid planting the seeds for future banking instability. In other words, virtual banks will have little room to engage in so-called "regulatory arbitrage," or taking advantage of loopholes in the rules to gain an edge over their bulkier competitors.

"They'll have to compete on offering lower cost services than traditional banks," Hsu said. "Otherwise, there'll be little incentive for the customers to switch to these new platforms." Consultancy KPMG said in a report in April that the introduction of virtual banks to Hong Kong will ultimately boost overall competitiveness.

Technology developed by financial technology companies can lower costs and help consumers without credit history get loans they couldn't obtain from traditional banks, it said. "This could significantly boost financial inclusion and encourage traditional banks to further develop their own platforms, thereby raising the bar across the whole industry," KPMG said.

Source : https://www.cnbc.com/2018/07/18/virtual-banking-is-set-to-shake-up-hong-kong.html

Based on the passage above, answer the following questions.

(a) Discuss the reasons that prompted Hong Kong Monetary Authority (HKMA) to initiate virtual banking in Hong Kong. (16 marks)

(b) How would virtual banks affect the banking system in Hong Kong and the rest of the world? (8 marks)

(c) Deliberate the possible downside of virtual banking. (6 marks)

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Question Two (30 marks)

Read the extract of a news article below and answer the following questions.

Trump and dollar: friend or foe?

REUTERS By Trevor Hunnicutt, Saqib Iqbal Ahmed
20 July 2018

NEW YORK (Reuters) - Donald Trump's comments that a strong dollar "puts us at a disadvantage" caused an instant fall in the greenback on Thursday and marked another example of the U.S. president commenting directly - and sometimes contradictorily - on the country's currency.

"There are certain comments most presidents wouldn't make," said Michael O'Rourke, chief market strategist at JonesTrading. "They'd defer monetary policy to the Fed and the dollar to the Treasury secretary. But Donald Trump is not most presidents."

In an interview with CNBC that aired in part on Thursday, Trump also said he was concerned that interest rate hikes would put the United States at a disadvantage. Higher interest rates and a strong dollar typically go hand-in-hand, because better yields attract foreign investment.

The dollar index .DXY, which measures the greenback against a basket of six currencies, has gained about 6 percent in the past three months. The rise has been driven by strong U.S. economic data, rising interest rates and the possibility that a trade war could cause inflationary pressures and reduce the trade deficit of the world's largest economy - factors that at least in part owe to Trump's own policies.

The U.S. trade deficit and the loss of manufacturing jobs that Trump blames on unfair advantages enjoyed by other countries have been centerpieces of his economic policies. A strong dollar makes exports more expensive to purchasers. "A strong dollar would undermine his stance on trade," said Eric Stein, co-director of global income group at Eaton Vance Management. "We might hear more beating of the drum about a weaker dollar."

"We're looking at 4 percent GDP growth for the second quarter, record low unemployment, the lowest initial jobless claims number in 50 years, inflation above the official target," said O'Rourke. "I'm surprised the dollar is not higher."

Extracted from the main source https://www.reuters.com/article/us-usa-trump-dollar/trump-and-dollar-friend-or-foe-idUSKBN1K933P

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Based on the extract of the news article, answer the following questions.

(a) Explain what Donald Trump's comment meant that a strong dollar "puts us at a disadvantage". (9 marks)

(b) From the last paragraph of the news article, what can we expect from the exchange rate of China Yuan for one USD? (4 marks)

(c) Based on the demand for domestic assets, graphically explain your answer in (b). (5 marks)

(d) Deliberate with appropriate examples, **four** factors that might cause USD to depreciate against China's yuan in the long run. (12 marks)

Section B: Short Questions (40 marks)

Question One (20 marks)

(a) The central bank's monetary base (MB), is equivalent to currency (C) plus reserves (R). Explain why the simple deposit multiplier overstates the actual money multiplier effect. (7 marks)

(b) In view of Fisher's Quantity Theory of Money and Keynes' Liquidity Preference Theory, explain how the stability of demand for money affects a central bank's monetary policy stance. (7 marks)

(c) Why is it necessary for a central bank to implement sterialised foreign market intervention? (6 marks)

Question Two (20 marks)

(a) Discuss the **three** stages of financial crisis in developing economies. (12 marks)

(b) Explain how economic integration can mitigate financial crisis in (a). (8 marks)

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